

Property Tax Study Committee

November 14, 2008

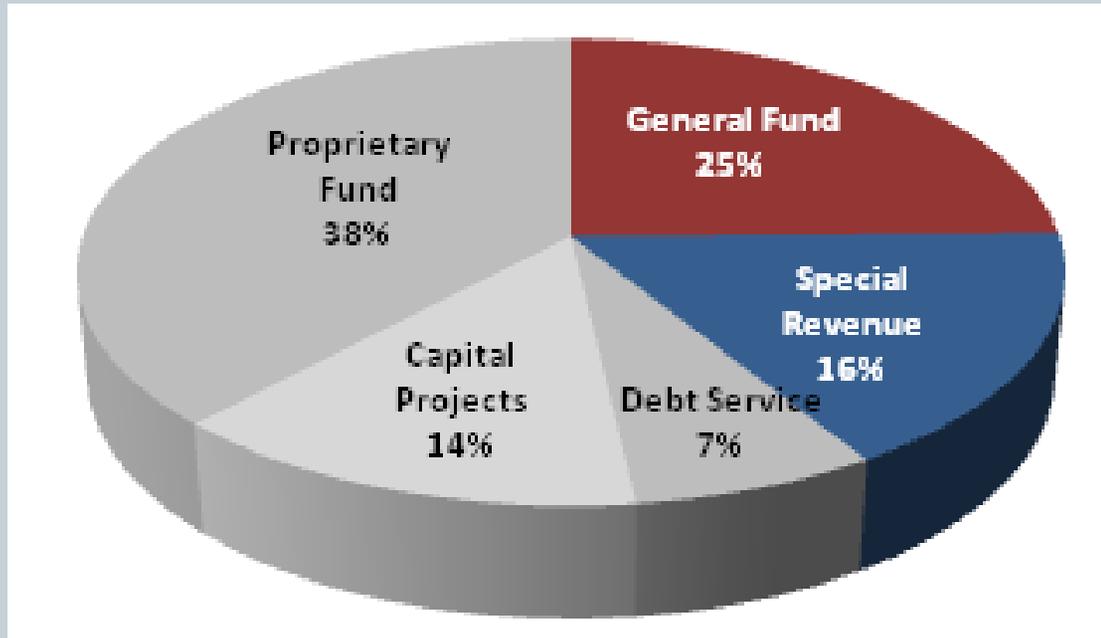
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League Executive Director
Alan Kemp

Overall City Budget

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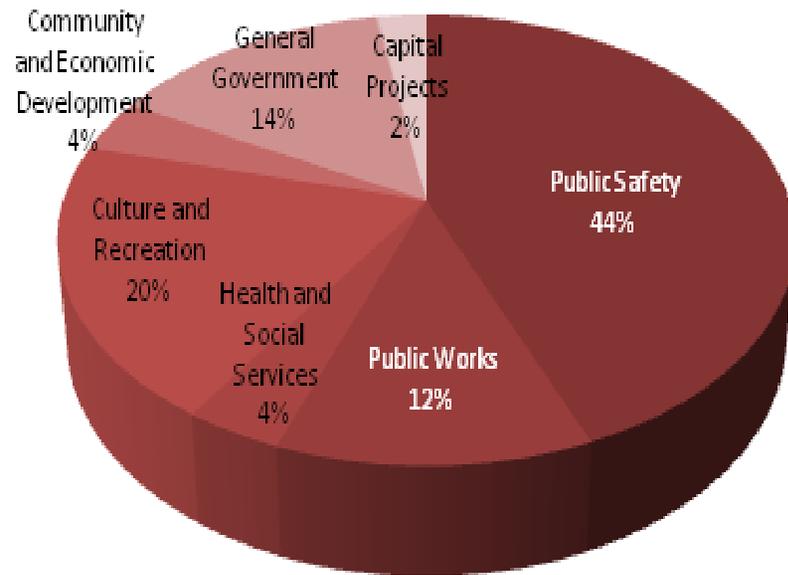
Overall Breakdown of City Budgets for all Cities in Iowa, FY08



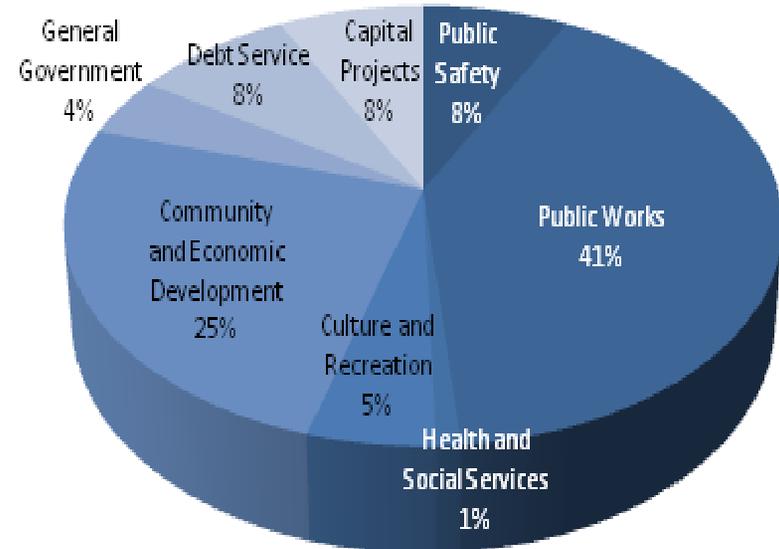
City Expenditures

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General Fund Expenditures All Cities, FY08



Special Revenue Fund Expenditures All Cities, FY08



- “Local spending for general government administration accounts for 5.4 percent of direct general expenditures for local governments nationally...” In Iowa general govt. administration accounts for 3.7 percent. (chpt. 3, p. 16)

Public Safety Expenses

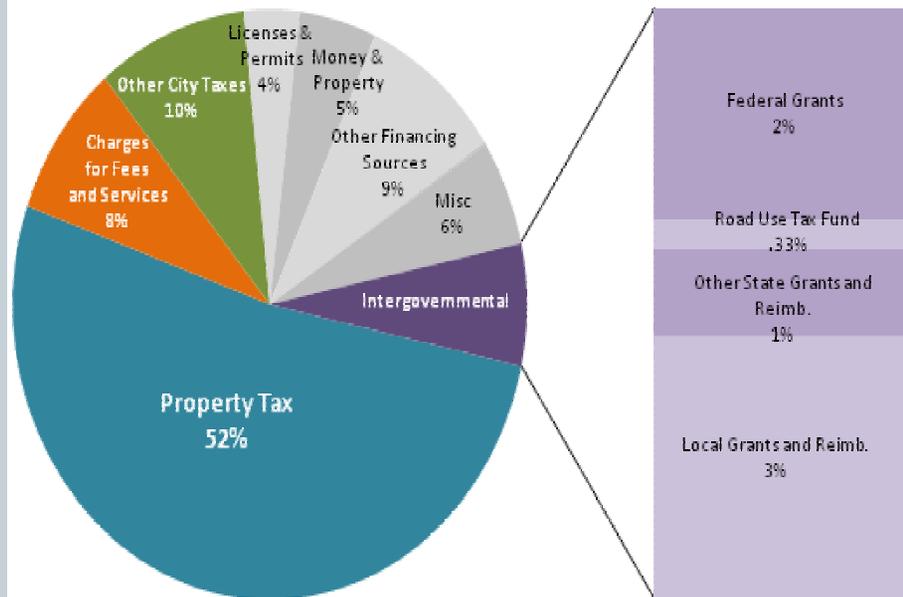
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- Christine Hensley, Des Moines City Council
- “In Iowa local governments allocate 82.3 percent of their total public safety expenditures to police and fire protection.” (Chpt. 3, P. 21)

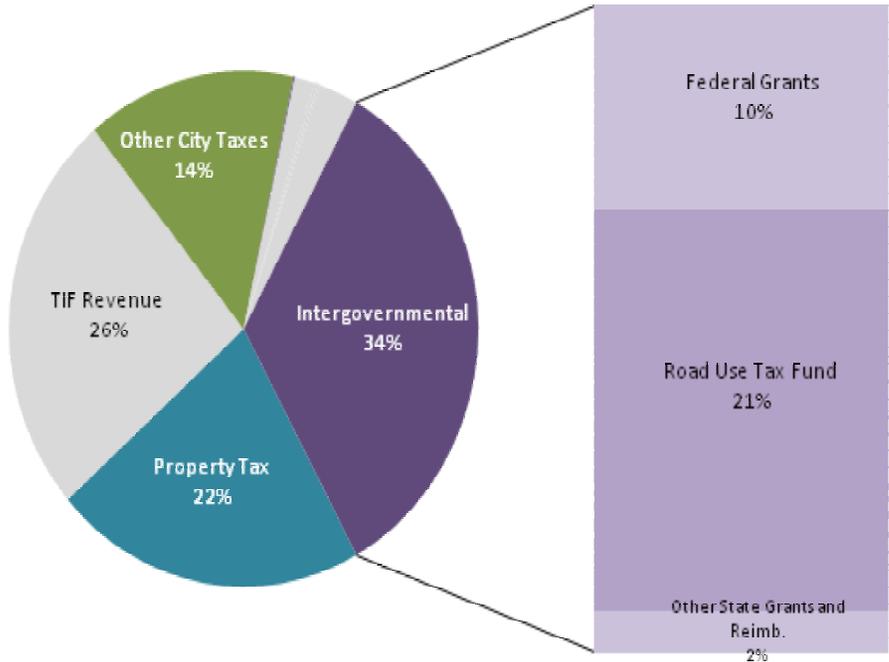
City Revenues

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General Fund Revenue Breakdown for All Cities Combined in Iowa, FY08



Special Revenue Fund Breakdown for All Cities Combined in Iowa, FY08

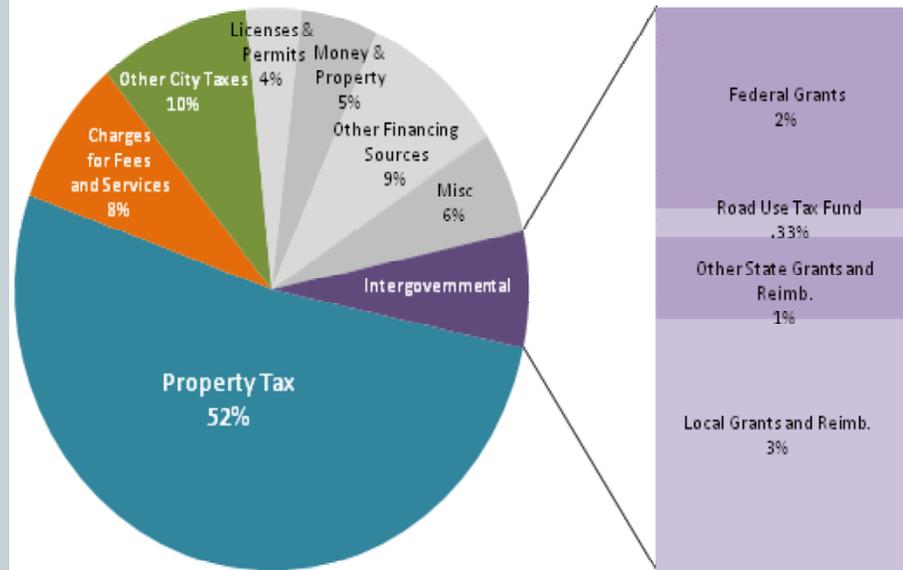


“Local governments in Iowa depend on the local property tax for 82% of their tax revenues—about 14% above the share for local governments nationally.”(Chpt. 3, P. 7)

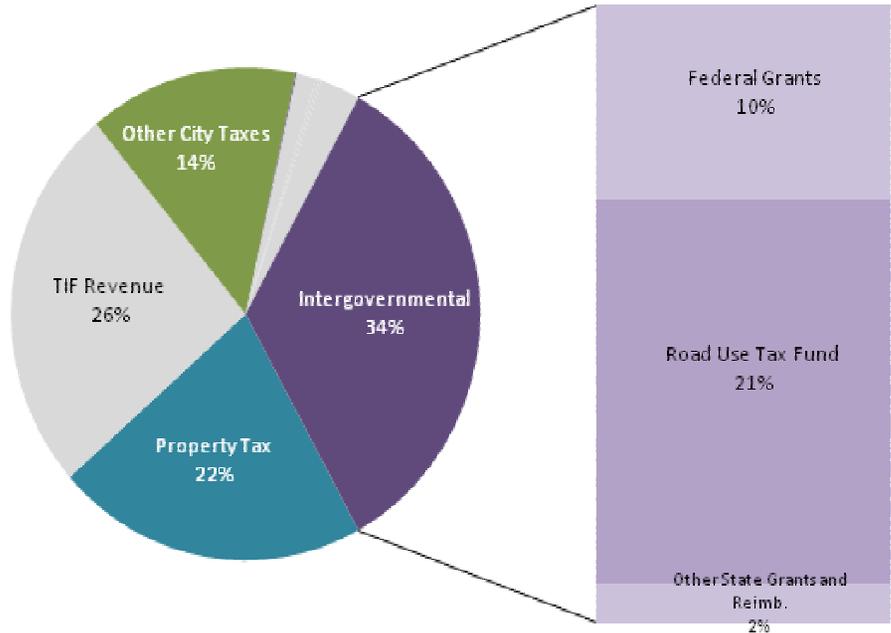
City Revenues

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General Fund Revenue Breakdown for All Cities Combined in Iowa, FY08



Special Revenue Fund Breakdown for All Cities Combined in Iowa, FY08

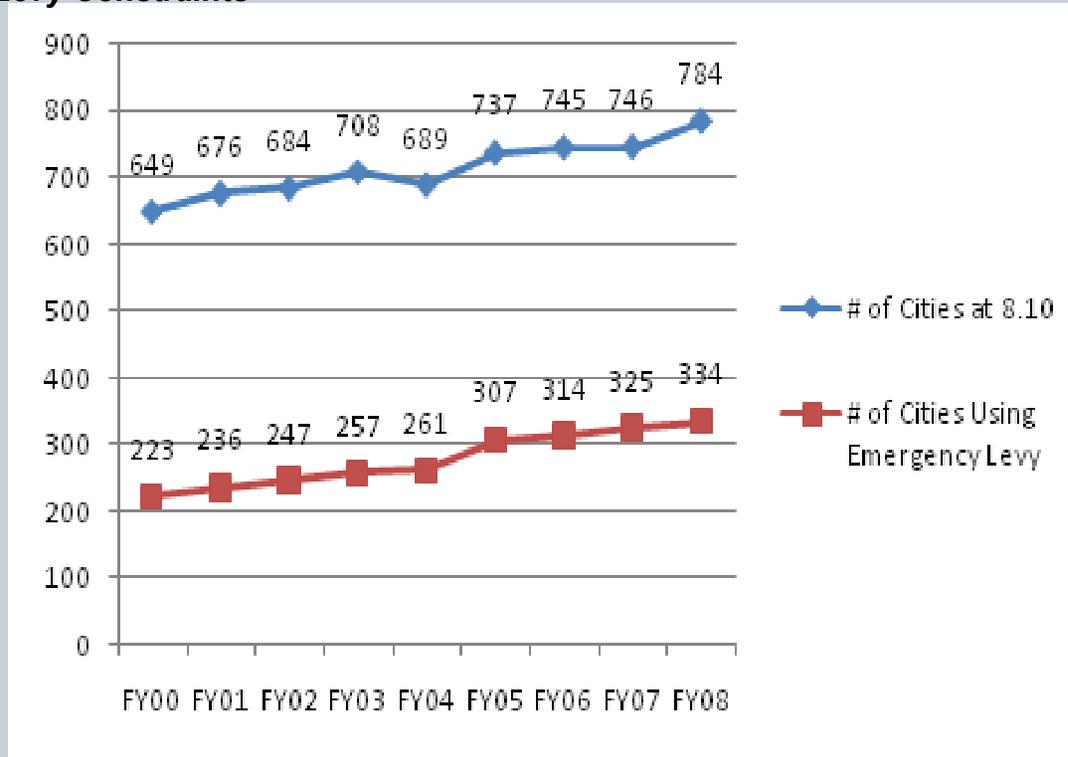


“Local governments in Iowa are somewhat less dependent on intergovernmental revenue (36.5 percent) than local governments nationally; and somewhat more reliant on own-source revenues than local governments nationally.” (Chpt. 3, P. 4)

Current Revenue Constraints

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Number of Cities with Levy Constraints



“Local government inability to cover the costs of services is tied directly to the limitations placed on the property tax, particularly rate and assessment limitations.” (Chapter 2, Page 4)

Proposals for Additional Flexibility

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- **Expand definition of “essential corporate purpose”**
 - Current definition doesn’t include most costs associated with remediation or clean-up of storm or flood damaged areas.
 - Repair and restoration of existing municipal buildings is considered “general corporate purpose” and requires referendum before general obligation bonds can be issued.
 - Since city’s lowest-cost financing tool is general obligation indebtedness – the following new essential corporate purposes should be added:
 - ✦ Remediation, clean-up, restoration and repair of storm and flood damaged properties
 - ✦ Repair, clean-up, restoration and improvement of existing municipal buildings that have been damaged by storms or floods
 - ✦ Replenishment of operating reserves drawn down for purpose of paying storm or flood-related remediation and repair costs

Extend Bond Maturities

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- Extend 20-year limitation of general obligation bond maturities for all disaster affected cities to enable deferment of principal payments on general obligation bonds and to restructure repayment of outstanding bonds
- Legislative changes required:
 - Amend section 76.1 to allow a 30 year payback for bonds issued under the new essential corporate purpose provisions

Midwestern Disaster Area Bonds

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- The federal Economic Stabilization Act of 2008 provides Iowa and other Midwestern states with authority to issue a special class of tax-exempt “qualified private activity bonds”
- Allows Iowa private business owners and corporations to borrow and lend capital at favorable tax-exempt rates to acquire, construct or renovate certain flood and storm damaged property
- Maximum aggregate bond authority cannot exceed \$1,000 times the portion of the state population which is located in disaster area
- Can be issued by cities and counties

Midwestern Disaster Area Bonds-Continued

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- Bond proceeds loaned by municipality to private business with repayment made solely by private business user – with no liability on part of city for repayment.
- Bond proceeds can be used to pay for acquisition, construction, renovation of nonresidential real property, qualified low income residential rental housing and public utility property
- Interest payments are tax exempt on a federal basis and not subject to AMT.
- Authority to issue expires on December 31, 2012
- Governor's Executive Order No. 9 – authorized Iowa Finance Authority to allocate
- Legislative change needed:
 - Amend definition of “project” in section 419.1(12)(a)

Authorize Emergency Repairs

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- Cities need expanded ability to undertake emergency repairs
- Legislation needed: Add language to Chapter 26 to allow for the following:
 - If emergency repair of public improvement, highway, bridge or culvert is necessary and delay of advertising and public letting may cause serious loss or injury to governmental entity, city can proceed without competitively bidding project if:
 - ✦ Chief officer of city makes finding of necessity to institute emergency proceedings and
 - ✦ Licensed professional engineer or architect certifies that repairs are necessary

Legalizing Act

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- Cities have out of necessity gone over budget and were unable to amend budget as required by chapter 384.
- Any noncompliance which may have occurred due to the undertaking of emergency repairs and reconstruction of public improvements or overexpenditure of city budgets due to disaster related activities should be legalized.
- Eliminate criminal penalties associated with budget noncompliance

Clarify amount of General Fund Loans and Leases

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- A recent decision of the Iowa Supreme Court has created an issue with the manner in which the authorized amount of city general fund loans and leases should be calculated – which limits the usefulness to respond to disaster-related conditions
 - Legislation should include:
 - ✦ Amend section 364.4(4)(e) related to city leases
 - ✦ Amend section 384.24A(4) related to general fund loans

Sales and Income Tax

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- The chart on page 31, Chapter 3 depicts each state's local tax revenues by source. It shows that generally states that are less dependent on property taxes are more dependent on sales and income taxes.
- “Local governments in Iowa generate 11.4 percent of their tax revenues from the general sales tax, which is almost identical to the national average of 11.5 percent.” (Chapter 3, Page 6)
- Local governments in 15 States collect more than 20% of their revenues from sales tax.
- Local governments in Iowa collect 1.7% of revenues from income tax.

User Fees and Charges

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- “With property taxes under intense pressure, user fees and charges allow local governments to diversify their revenue base. Sound tax systems are built on a diverse base, which provides a measure of stability.” (Chpt. 2, P. 10)
- “The primary justification for user fees and charges is they are among the most efficient means of financing local government services.” (Chpt. 2, P. 9)

Autonomy for Local Governments

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- Cities should have alternative revenue options
 - Decrease reliance on property tax
 - Allow individual cities to determine what is most appropriate revenue alternative for their community

- *“We believe one of the major threats of centralization of funding is a loss of autonomy for local governments generally. Local governments are more responsive to local needs because they have greater access to local residents and more flexibility in providing the services demanded by those residents. Local government is more efficient in providing local services, because local government officials know the costs and benefits of those services.”*

(Chpt. 2, P. 27)